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AMERICAN ECONOMIC PROBLEMS TODAY

18 September 1951

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Dr. Howard S. Piquet, Senior Specialist in International Economics, Library of Congress, was born in New York City in 1903. He received his B.S. degree from New York University in 1924 and his M.S. degree from the University of California in 1926. In 1930 he received his Ph.D. degree in economics from Princeton University. From 1928 to 1932 he taught economics at Princeton. He was then appointed assistant professor of economics at New York University. In 1934 he joined the economics staff of the United States Tariff Commission and became chief of the Economics Division in 1937, serving until 1943 during which time he directed many of the studies which culminated in the Reciprocal Trade Agreements. In 1943 he left the Tariff Commission to attend the Hot Springs Food Conference and to serve until 1945 as executive secretary of the United Nations Interim Commission on Food and Agriculture. In 1945 he joined the staff of the Office of War Mobilization and Reconstruction and while there was appointed executive secretary of the Inter-agency Policy Committee on Rubber. Since 1946 he has been the Senior Specialist in International Economics of the Legislative Reference Service of the Library of Congress. He was detailed in 1947 to the Foreign Affairs Committee of the House of Representatives and served as deputy staff director of the House Select Committee on Foreign Aid. He is also Adjunct Professor of Economics at the American University in Washington, D. C.

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DR. HUNTER: Since all of you have had an opportunity to read the biographical sketch of Dr. Piquet, I am going to reverse the usual procedure and introduce the audience to the speaker, who, incidentally, as the biographical sketch did not state, is an old friend of the Industrial College. That means he has appeared here several times before. If your lecture, Dr. Piquet, had been scheduled three weeks ago, these men, I am sure, would have been clay in your hands; but a good many words have gone out from this platform in the last three weeks, and the clay has stiffened a bit and won't be quite so easy to work.

Not only has your audience been inducted into the mysteries of gross national product and the display of consumers' income, but they no longer blush when the word "entrepreneur" is mentioned; they have heard the old gag about placing 1,000 economists end to end and not reaching a conclusion, in fact, without even exhausting the supply of economists. On the other hand they have learned that the economist has at last been made an honest man. The businessman has taken him off the streets and put him to work revealing secrets of economic indicators.

Just one final word: Many among your audience you will find, Dr. Piquet, subscribe to the old military proverb which goes back to Clausewitz--possibly even to Herodotus--that any decision is better than no decision, that any action is really better than no action. So if you can come to just an occasional conclusion, you will rescue your audience from the void into which some of your fellow economists have dropped them.

DR. PIQUET: Thank you Dr. Hunter, if I didn't know you so well I would actually feel flattered. I shall do my best to try to avoid leaving you and my other listeners entirely in mid-air.

It is always a happy occasion to me when I come to talk to the students at the Industrial College. I have been connected with this institution in one way or another ever since 1944 and I have come to feel that I am, in fact if not by regulation, a part of it. However, each time I come here I seem to be assigned a more frightening subject. This time it is "America's Economic Problems Today" and my instructions are to cover it in about an hour. Now if I were to attempt to do this, in any definitive way, I fear I should need the combined brains and abilities of the authors of the Encyclopaedia Britannica, of the Encyclopedia of the Social Sciences, together with the wisdom of a thousand Solomons. Would that I had such skill!

What I can try to do is to divide this very broad area into a few major parts and proceed to give an impressionistic picture of the nature of the problems in each of them.

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264 The first area of interest is the international position of the United States. Second, is the economics of national security. Third, that whole congeries of problems which are bound up together in what we conveniently, and somewhat glibly, call "inflation." Fourth, is the challenge of preserving our individual freedom while solving these other problems. These are the four main areas--or focal points--of interest, around which thousands of questions cluster. If I can present, in a general way, a picture of the problems in these four areas--paint the highlights of the picture, so to speak--I shall have done all that I feel I am competent to do.

I was also asked to include in my presentation something about the nature of "economics." What is economics? What are economists trying to do? Is economics a science or is it a kind of apologia for the status quo? Yes, I can almost see some of you thinking aloud that "if all economists were laid end to end they would get nowhere." I am afraid that the public impression that many economists have given, subjects us all too readily to that quip.

To many, the economist undoubtedly is a "queer bird" in some respects. Some economists undoubtedly deserve such a reputation, particularly those who hide in the cloisters, so to speak, and spin gossamer-like theories that have no detectable connection with the real world. But, many others are not at all queer, once their role is properly understood.

I have some good friends who happen to be businessmen. They seem, upon occasion, to take particular delight in trying to bait me by such questions as: "What a mess you've gotten us into. Why can't you make the Government do a better job?" The answer, of course, is that the economist is not, or at least should not be, an administrator. Neither is he responsible for policy-making. The job of the economist is to analyze, to seek out cause and effect relationships, and on certain occasions, to advise. It is his job to assemble facts, to show their relationships and the consequences of alternative lines of policy and action. The determination of policy is primarily the job of the statesman and politician. They are chosen by the people and, acting on behalf of the people, it is they who forge policy. Actual administration, the task of seeing that policies are followed out through organization and day-to-day decision-making, is the job of the administrator, not of the economist. Undoubtedly, economists as a group deserve some blame for failing to be clear in their analyses and pronouncements. Many economic discourses seem to have fallen far from the mark in this respect; this I readily admit. But, let us not blame the economist for failing to do that for which he is neither responsible for, nor especially qualified to do. If his analysis is incomplete, unconvincing, or uncoordinated, he deserves criticism. He does not deserve to be criticized either because the lawmakers fail to set wise national policy or because of inadequacies or failures on the part of those with administrative responsibility.

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The problems which America faces today, even though the most of them are economic in nature are, at bottom, political questions. They cannot be answered by what we like to call the "scientific" approach. Take a question like the tariff--surely, it is not up to the economist to say what the country's policy should be. Policy results from conflicting crosscurrents and from the votes of many diverse interests. This is a political process; it cannot be determined in the laboratory, in the classroom, or in the library. It must be hammered out in the legislative chamber by the representatives of the people themselves.

A number of economists recently have turned toward the mathematical--which is to say a highly-developed deductive--approach to economic problems. Personally, I am not very sympathetic with this approach because it seems to avoid the most important questions which are of the nature of philosophy and statesmanship. So, do not feel discouraged if, when you pick up some book on economic analysis, you find that it bristles with highly complicated mathematical formulae. The kind of economic analysis that is really important today in the field of policy-making is the common-sense approach of those who are able to see the whole as well as the parts and to sense the implications, political and national as well as local and money-making, of alternative lines of action. We economists, unfortunately, have been prone to discuss our disagreements in the presence of others. We seem to enjoy washing our dirty linen in public. But, even though we, in common with those engaged in other branches of social study, seem to disagree violently, there are many points upon which we do agree fundamentally. The trouble is that we take these agreements for granted among ourselves and seem to think that the public, too, realizes that we agree. I think that there will be little disputing the fact that economists agree, in general, that the objectives of economic policy should be the maximizing of the total of goods and services available to the vast majority of the people. There would be little or no disagreement with the contention that this objective should be accomplished with a minimum of effort. These are almost truisms. There are many other points of agreement. If only economists would reserve their linen-displaying sessions for their own closed meetings and concentrate in public only on those things upon which they do agree, at least so far as fundamental premises and objectives are concerned, it might be better for everyone concerned.

Now let me turn to the main subject matter of my talk. The first subject that I listed for discussion was the international economic position of the United States in the world today.

International Economic Position of the United States.

No one would dispute the fact that the United States is the most powerful country, economically, in the world today. Our power is tremendous. If our purposes and lines of action were as clear as in our economic strength there would be little question but that effective leadership would be ours. That which has been lacking, however, is clear

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direction. We have the power. In a general way, we know our objectives. But we are not at all sure as to how to go about attaining them.

We have succeeded admirably in giving the impression of confusion to many foreign peoples. Thus, when the European Recovery Program was first enacted in 1947, we not only generously opened our purse and gave freely to the prostrate peoples of western Europe (we even offered direct assistance to countries behind the Iron Curtain) but we gave freely of our supplies of food, fuel, fertilizers, and capital equipment in order that the countries of western Europe--our former allies--could restore their economies and become able to pay their own way. We made this clear by deed, not merely by words. We have given away billions of dollars for this purpose. And yet, no sooner do the recipients, largely through utilization of this aid, succeed in restoring their economies and in producing for export than we throw even more restrictive barriers against their goods. Can we blame them for wondering what manner of people are we, who give away billions of dollars for a purpose and as soon as we achieve that purpose give no indication that we really wanted it in the first place? It is incomprehensible to them and they cannot be blamed for reacting to us much as they would to a spoiled child or to someone who borders on the irrational.

The professed objective of the United States is restoration of a multilateral trading world with its concomitants of freely convertible currencies and free foreign exchange. In almost everything that is said, and in much that has been done, the Administration has given the impression that, above all else, it wants to re-establish the world economy on an open multilateral trading basis. That is what the President, the Secretary of State, and the Administration in general has been saying (and actually doing within its lawful powers). But, when it comes to a final showdown and the American people have an opportunity to speak, through their duly elected Senators and Congressmen, the purposes of the United States seem to be almost exactly the opposite.

The United States Congress--representing the people, of course--today is clearly protectionist. The majority of Congress seems to be determined to keep out of the country any and all imports that might in any way damage any domestic producing interest. The Reciprocal Trade Agreements Act, just recently revised and renewed, makes this clear in unmistakable language. The "escape clause" provides that any domestic producer who finds himself injured, or is confronted by the threat of injury, by virtue of a concession granted in any Reciprocal Trade Agreement, is entitled to relief through withdrawal or modification of that particular concession. He has the Tariff Commission to appeal to and that body is now being bombarded by applications under this provision. This is not an empty gesture; it is a power that has been, and is being, increasingly utilized by numerous protected interests that are determined to prevent import competition.

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Foreign producers and exporters feel frustrated. They do not know in whom to place their confidence, the President of the United States and his Administration or the Congress of the United States. They have learned from painful experience, however, that in final analysis, when funds are involved or when legislation is necessary, the Congress of the United States, representing the power of the people, is supreme and that it can, and does in fact, overrule the President and his advisers.

Consider for a moment our relations with the United Kingdom. Upon almost every available opportunity we have impressed upon its people the necessity of their abandoning exchange controls and the Imperial Preferential System of trading, under which the Dominions and colonies have preferential advantages in the British market. We persist in telling them to do as we say (not as we do)--to break up the preferential system. Only a few days ago British and American delegates were at virtual loggerheads at a meeting of the International Monetary Fund. The American representative insisted that the British abandon their system of controls in favor of a return to a free-exchange system. They on the contrary, insisted that such abandonment would be out of the question.

On top of it all, there is an ever-present temptation to allow emotional elements to enter into such questions. When Anglo-American relations are involved many are prone to jump to an answer on a basis of either pro-British or anti-British sympathy. In social and economic questions it is difficult to be objective. But, unless we are objective there is little hope ever of arriving at anything like rational or satisfying solutions to problems. It is like the three people and the glass half-filled with water. The professional optimist exclaims with joy: "Look, half a glass of water!" On the other hand the professional pessimist grunts, "Look, half empty!" Neither of these is objective. The scientist, that is to day, the professional skeptic, says: "There is a glass with a capacity of 12 ounces and containing 6 ounces of water." No emotion is involved. That is the way we must learn to look at matters involving relationships among people--the so-called social sciences. That which characterizes a science is not that the subject matter makes prediction possible, but that those who are doing the analyzing are objective and impersonal in their approach.

Now there is nothing theoretically wrong about the idea of restoring open multilateral trade. That was, broadly speaking, the system that prevailed throughout the larger part of the nineteenth century and it worked exceedingly well. But, the mere fact that the United States is now the most powerful country in the world--just as Great Britain was the most powerful country throughout most of the nineteenth century--does not necessarily mean that the United States is in the position that Great Britain was at that time regarding capability of doing what Britain did to bring about open multilateral trading. Conditions throughout the world

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today are quite different from what they were 100 years ago. The present relative position of the United States among the countries of the world is similar to that of Great Britain in 1850 in a superficial way only.

Under an open multilateral trading system, the economies of individual nations are allowed to adjust themselves to each other. Money (in the nineteenth century it was gold) is allowed to move freely from country to country, exchange rates are allowed to move freely in order to effectuate this movement, goods are unrestricted tradewise so far as their origins are concerned. There may be tariffs but they are non-discriminatory in nature. Under this system countries specialize in producing those goods that they are most capable of producing and under such specialization there is no assurance that any country will be militarily or economically self-sufficient. The large countries would tend to be so but the smaller countries, which would specialize in only a few products, would tend to become increasingly dependent upon other countries.

Regardless of their expressed ideals, most countries today are interested in self-sufficiency, or near self-sufficiency, for purposes of national defense and security. Second only to this is their interest in maintaining their economies on relatively even keels. Since the United States economy is so large, relative to the economies of most other nations, these other nations are particularly fearful lest a recurrence in the United States of a depression similar to that which they all experienced in the 1930's bring about unemployment and industrial stagnation. For this reason there has been, and there continues to be, major concern over the maintenance of domestic employment. This is notably true of the British Government. That government, above all else, is conscious of vulnerability should it allow itself to be tied in too closely with American economy. Since the American economy is a "free" economy, it is vulnerable to the wide fluctuations that have characterized recent movements in the so-called business cycle. The British, under their present Labor Government, are emphasizing, as are many other countries, the importance of maintaining full employment. The domestic economy comes first; foreign trade and international economic relations generally must thus be placed in a subordinate position relative to domestic policies and objectives. This is diametrically the opposite of the expressed goal of American policy, for under a purely multilateral trading system there would be a minimum of interference with the international movement of commodities. I do not mean by this that even the theoretical goal of the United States is, in practice, pure multilateralism. For even the most ardent exponents of restoring the nineteenth century system would not go so far as to plunge the Nation into the indeterminateness, in terms of national security, that might be occasioned by the sudden adoption of free trade.

That which is confusing regarding United States economic foreign policy is not a lack of definiteness with regard to stated objectives, whether those objectives are realistic or not. It is, rather, vagueness and inconstancy with respect to day-to-day decisions and actions that

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should, but often do not, add up to the clear implementation of stated policy objectives. In large measure this results from the nature of our governmental structure. Under our system of separation of powers--of "checks and balances"--it is almost impossible for the Chief Executive to commit the United States to any line of action in advance. I am speaking, of course, of other than war or other emergency conditions. The final arbiter of the country's behavior is not the President but the people speaking through their representatives in Congress. When all is said and done, foreign policy consists primarily of day-to-day and week-to-week decisions and actions. The goal itself means nothing more than good intentions unless it is implemented by behavior that consistently leads toward the expressed goal.

The world does not always understand that we Americans deeply believe in government by the people. We believe in it so deeply that we prefer it to even clarity and efficiency. Of one thing I feel sure and that is that we shall not give up our democratic ways in favor of the glittering efficiency of authoritarianism. What I would like to feel sure of is that we shall learn the importance of being understood by others and acquire greater consistency of action within the framework of individual freedom and liberty.

The world is often confused when it comes to interpreting what is actually the economic foreign policy of the United States, for we often do not follow in practice that which we preach. The Administration for 18 years has been talking about the objective of lowering trade barriers and making international trade nondiscriminatory. Although throughout 14 of these 18 years the Congress of the United States, when it came to a showdown, supported this general policy, at no time did it do so with genuine enthusiasm. Since 1948 the opposition of the legislative branch to the freer trade philosophy of the Executive has been quite open.

Again, the explanation arises largely out of the nature of our governmental structure. Our representatives in Congress are elected on a geographical basis and the job of a Member is to represent his constituents as best he can. Few people--including Congressmen, who by and large are more advanced in their thinking than most of their constituents--have any great capacity for getting beneath the "seen" into the "unseen." Few people have the capacity, in matters pertaining to the economy of the Nation of which they are a part, to see beyond their immediate short-run interests into either their own longer-run interest or into the long-run interests of the Nation as a whole. Few people are willing, when it comes to a showdown in terms of actual dollars and cents, to incur immediate loss for the sake of larger, but diffused, social gain. Thus, time after time, when particular commodities have been suggested for tariff reduction the representatives of the areas which produce those particular products, even though they themselves may have been openly in favor of the Reciprocal Trade Agreements philosophy, have felt constrained to oppose such reductions. It is a case where the whole is not equal to the sum of its parts. Each individual is willing to allow imports in general to enter the country provided that they do not compete with the products that he happens to sell.

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It is a case of "let the other fellow do it." The result is that, in toto, we say one thing but do something quite different. We proclaim our belief in an open multilateral trading system with relatively free trade while we are still highly protectionist in our daily behavior. We still have highly protective tariffs and we still have preferential trading arrangements with Cuba and the Philippine Republic. It is, indeed, as easy to criticize the other fellow as it is to excuse one's own inconsistencies!

The rest of the free world has confidence in America's basic intentions. Most of the other countries are deeply appreciative of what we have done for them, but they cannot be sure that we will behave in such a way as not to upset their applecarts. One of the most important lessons that I have learned in the seventeen years or so that I have been in Washington is the positive need for uniformity in national objective and for intelligence in daily behavior so that the rest of the world will know where we stand and have confidence that we will live up to our word. In this connection I am reminded of a recent article in the "New York Times" about a Geneva Conference at which the United States delegates were trying hard to put through an anticartel declaration in connection with chapter 5 of the International Trade Organization Charter. One of the foreign delegates pointed out that the United States was not consistent. He pointed out that as they had not even presented it to Congress, he saw little reason for taking the matter too seriously. Why pay any attention to the American delegates when they are not necessarily speaking officially for the United States? Until we get our own house in order, until we can present our case and follow through point by point, consistently and logically, we cannot expect to exercise power commensurate with our economic strength.

The dominant fact in the world today is the industrial strength of the United States. That industrial strength can be more effective if the other countries know that we are speaking for ourselves and that we mean what we say. It involves the whole question of foreign aid. Sometimes I shudder at the thought of the billions of dollars that we are giving away. Fortunately, the Economic Cooperation Administration has been doing an effective job. It has almost worked miracles in western Europe in terms of restoring the industrial and agricultural plants. Still we are concerned over the ability of these countries to support themselves on a plane of living that will protect them against the inroads of communism. We are coming to learn that dollars alone will not solve the problem. New methods of production, new efficiencies, and wider markets are imperative if these countries are to achieve the goals that were set forth in the original Marshall Plan. Nobody knows the answer but many feel that the real solution must come from within, rather than from without, the recipient countries themselves.

We are even less clear, and understandably so, about aid to the so-called "underdeveloped" countries. There are some who think in terms of giving away billions of dollars to encourage these countries to produce

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the strategic and critical raw materials that we so urgently need. There are even some who would do this at the cost of antagonizing the natives of the areas concerned. Others who are more understanding of human nature, foreign culture, and institutions realize the danger of this modern version of Roman imperialism. They would stress that man does not live by bread alone. Man must have the psychological satisfaction that comes from common fellowship and human understanding. The basic question in many of these areas is colonialism. When these peoples see the United States, born as it was in the storm of revolution against imperialism, support the imperial powers against their own aspirations for independence, how can we hope to prevent them from being cynical?

If the Point Four Program means only the exploitation of foreign areas we had better drop it and drop it quickly. If, on the other hand, the American people genuinely want to help other human beings in far-off lands acquire the same degree of freedom that we enjoy, we should not be afraid of the consequences of action so directed. Either we believe in the principles upon which our own country is founded or we do not. If we do not we shall probably go the way that imperialism has gone. If, however, we are in fact and in spirit, as well as in history, born and bred in revolution against authoritarianism, we can provide impetus for what might prove to be the greatest development in human history.

Not so long ago I was on a television program in which a group of us were discussing the "Point Four" Program. I asked a representative of business what he thought would happen if this program were to be successful and a lot of goods were to be imported from the hitherto backward countries. I asked him specifically: "would there be any objection on the part of competitive producers in this country?" He replied: "You bet your life there would be!" This illustrates what I mean. Why help these countries to produce more? Why help them to specialize if we are not willing to be good neighbors, not merely in words but in the give and take of normal commerce? Why try to sell to them unless we are willing to buy from them? Why look upon them as parts of an invisible economic empire rather than as equals?

I am sorry that we do not have time to develop this point any further. We may summarize by observing that we must be clear as to what we are after internationally. We are for peace--of course we are! We are for peace and for all else that is good. And we are against sin and all else that is bad. That is easy. But when it comes to specific actions, are we doing those things that we shall have to do if we want to win and hold the respect and affection of the peoples of the free world? It is interesting in this connection to observe how successfully our "bipartisan" foreign policy worked immediately following the close of the war. So long as we were talking about peace in the abstract, about international organization in general, about the legalistic terms of charters and constitutions and all the other relatively insignificant things, there were no major difficulties. But, as soon as we faced questions about what we were going to do--such as action in China--it became clear that we did not

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have a bipartisan foreign policy at all. That which we thought was a bipartisan policy was merely the preliminary handshake preceding the main bout. Americans simply have not learned, in terms of practical politics, how to arrive at and implement a unified national policy in the field of international economic relations.

An interesting suggestion was made a short time ago by a Member of Congress that would have sought to take the Point Four program out of politics altogether. In order to make it nonpartisan, he would set up a commission, along the lines of the recent Hoover Commission, to study and to make recommendations regarding the program of aid to underdeveloped areas. On this commission would be Members of Congress, representatives of various government departments, and a number of public members. I think there is much to be said for this approach to the problem. It is in the tradition of the British Commission of Inquiry, a method that has been successful upon many occasions.

National Security.

The second subject that I want to discuss is security for the free world. This is more in line with the specializations of your men in uniform than it is with mine, I suppose. I happen, however, to be very much interested in the question and there are a few things about it that I should like to say.

In the first place, I believe we have, as a nation, made a major basic decision. That is the decision to follow the road of collective security rather than the road of "going it alone." We could have chosen the method of ancient Rome and sought to bring about the establishment of a modern version of the old "Pax Romana"--a "Pax Americana" if you will. That route would be unbelievably expensive and of doubtful efficacy in a world as complicated and as mechanized as the modern world is. We are definitely committed to the idea of collective security. We have led in the creation of the North Atlantic Treaty Organization and we have security pacts with a number of other countries. We have clearly taken the first steps along the road of collective security.

This road, however, has its own peculiar difficulties and obstacles. In contrast to a Pax Americana which would involve our being armed to the teeth at all times as world policeman, collective security involves cooperation, imagination, and intelligent planning for all eventualities. Specifically, we have to be prepared for three things, any one of which might happen at any time. The first is the possibility of an outbreak of wholesale shooting war. Today we cannot afford to sleep. You men in uniform, more than anyone else, must be aware of this. The second possibility is continuation of the cold war--or, as I prefer to call it "smoldering war"--in which we are now involved. This seems to me to be the most likely possibility of all. It seems likely that we shall continue to be involved in Korea for some time to come. If perchance the Korean difficulties should suddenly be settled, I should think it quite likely that there would be new

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"Koreas" breaking out elsewhere. In "smolder war," dealing as we are with a State bent upon aggression and world revolution, we must be prepared for constant needling and constant troublemaking. That is one of their main stocks in trade. In some respects the problems of "smolder war" are more baffling than the problems of either shooting war or a sudden outbreak of peace.

The third possibility would be a "breaking out" of peace. If the rug were to be pulled out from under us, by either a genuine counter-revolution within Russia or by some other event presently unforeseeable, the effect upon us might be near disastrous. If we were suddenly to throw upon a peacetime economy the tremendous productive capacity that we are currently building for national defense, we might precipitate such major economic dislocations as to engulf us in a depression reminiscent of the 1930's.

We must be prepared for all three of these eventualities simultaneously. There is no basis for assuming that any one of the three will eventuate. Indeed, if we were to make such an assumption that very fact alone might be a powerful force for insuring that it is precisely what would not happen. We know this much--that the Russian State is not going to relax unless it has to and that the Russian leaders are not guided by emotion but by pure self-interest. We must not fall into the trap into which the Nazis fell and allow our emotions to get the better of our judgment. The Russian dictators are more efficient than were the Nazis. They are cold, calculating, and intelligent.

There is one ever-present paradox that confronts us and that is the price that we may have to pay for being successful in the "smolder war." Our present policy is a policy of containment and if we succeed in containing the expanding force of Russia wherever it shows itself, it is possible that the Soviet leaders, realizing that they have nothing to lose but all to gain, might embark upon shooting war. We however, have little choice in this matter. The cold war is upon us and we have no reasonable alternative but to combat it with all the strength and wit at our command. We have no choice but to be adequately prepared, militarily and industrially.

Back in 1940, after World War II had broken out in Europe, the big problem facing America was how to wake up. From 1939 until the tragedy of Pearl Harbor many Americans cherished the comfortable illusion that this sort of thing just could not happen here. After the people did really wake up on 7 December 1941, the problems suddenly became simpler than they had been for the previous two or three years. The Nation had been attacked and the citizenry rallied to the call for military action. They pulled their civilian belts tighter and went without things in order to win the war. Our war effort was phenomenal, as all of you know. We became the arsenal of democracy and before so very long we almost literally smothered the enemy with a veritable flood of military and industrial equipment.

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When the shooting stopped, almost four years later, we mistook that fact for peace. As in 1919, when we could see nothing more important than a return to "normalcy," we scrambled to see who could "reconvert" back to peacetime pursuits first. We demobilized our armed forces almost overnight, disposed of unbelievable amounts of surplus military materials, and had no idea at all of the events that were already on the international horizon. We jumped to the conclusion that all of our erstwhile allies and cobelligerents would remain in sympathy with our own ideals. The fact that the Soviet Union did not demobilize disturbed us not at all. We Americans like peace; we want peace. Our weakness in the past has been that we have been overwilling to assume that we can relax and enjoy peace in a world which, in fact, bears little resemblance to the world of our wishful thinking.

Now that we are engulfed in smolder war the big problem is whether we, the American people, can give what it takes. In an all-out shooting war we have demonstrated time and again that we can be tough. We have yet to prove that in time of peace we can, in fact, be prepared for war--or, better stated, whether we can, in time of peace, do those things that must be done if war is to be averted. When we consider how difficult it was in 1938, 1939, and 1940, for the American people to realize what was coming, notwithstanding the fact that the Nazis were overrunning western Europe, we can appreciate the difficulty that confronts us. In the Spring of 1940 many clearheaded people saw that war was coming. The Nazis had overflowed into Belgium and the Netherlands and were sweeping across France. Yet the dominant feeling on this side of the Atlantic was complacency. How, in the light of this experience, can it be anticipated that we will show the necessary foresight and self-restraint that will be necessary throughout the next decade--yes, generations!--to forego some of the comforts that we shall have to forego in order that the free world may survive? It is a terrific challenge. In my opinion it is the greatest challenge that has yet confronted this Nation. The struggle ahead of us is going to be tough and it will require all that we have psychologically, emotionally, and spiritually, as well as economically and militarily.

The fact is that for years we Americans have been a fairly spoiled people--spoiled, that is, in the sense of a young person who has been brought up in the lap of luxury. It has been easy for us to take for granted that there will be plenty of automobiles, refrigerators, radios, television sets, houses, and all the other things that go to make up our high plane of living. We don't want to give these things up. We don't like to think of the cost, in real terms, of maintaining the defense establishment that we shall have to maintain or of the burden that co-operation among the nations of the free world will entail. We still long for isolation. I admit that I, too, would like it if we could build a big wall around our country and live unto ourselves alone. But that is idle daydreaming. Distance has been annihilated and, whether we like it or not, we are neighbors of the inhabitants of every corner of the globe.

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Now it is a truism that the basic wealth of the United States is tremendous. Although we are already short of certain raw materials, the fact remains that we are still exceedingly wealthy in real terms. We have an inventive people and a competent labor force. If we have the will to do it, the intelligence to implement it, we can without too much difficulty have both guns and butter in the years to come. But this situation will not come to pass automatically. Unless we use our wits we may find ourselves producing such an abundance of military goods that we shall not know what to do with them. The problem is to keep prepared to expand military production at a moment's notice, to maintain an eversteady flow of necessary production, to scrap obsolete equipment, and not to lag in research and development. There is danger that we shall blow hot and cold, alternately. There is danger that we shall produce too many military goods, suddenly realize it and cut back their production, thereby throwing a mass of industrial capacity onto the civilian economy in a hit-or-miss fashion. What is needed--and I use the word advisedly--is a central or "master plan." I don't mean a planned economy in the totalitarian sense. It is unfortunate that the word "planning" has come into disrepute. It is a truism, is it not, that no business, no person, no organization can afford to be without some sort of plan? It is just plain common sense. I plan to wear a raincoat if it rains. You have planned to come here this morning to hear me talk, and I have planned to come to talk to you. What the Nation needs is an ability to work out a national plan worked out through democratic processes.

Let me give a few illustrations of what I mean. There are a number of areas in which important decisions have to be made. The decisions must be consistent with each other, both within each area and among the areas. These areas of decision include manpower, steel production, petroleum production and allocation, monetary policy and debt management, credit and inflation, and shortages of strategic materials, particularly certain nonferrous metals. Because we do not have a central plan, and because we do not always understand the implications of what we are doing, we waste materials that should be conserved for more essential uses. Why, these days I shudder when I see a new automobile come along the street all dressed up in shiny new chromium trim. Chromium should not be permitted in any but the most essential uses for it is in short supply and it is essential for defense purposes. The same is true of tungsten and a number of other nonferrous metals. We cannot afford to waste these materials and as long as we allow them to go to the highest bidder, regardless of the larger interests of the country as a whole, we do not have a functioning national plan. We may have programs but they are not synthesized into a single national scheme.

Turn your attention for a moment to manpower. There has been some loose thinking regarding what we can, or cannot, do with the manpower at our disposal. Immediately following the outbreak of hostilities in Korea a prominent statesman argued that we should have an army of 6 million men

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by the end of 1950. Such a statement sounds fine. It sounds courageous and determined. But, it does not reveal great insight into the nature of the manpower problem. We are vastly inferior to the Russians in terms of numbers of workers. We have to economize on manpower and make up for what we lack there in terms of industrial equipment and "know-how." Official figures that I have seen indicate that we can have up to 2.5 million men in the armed services without substantially slowing up the industrial machine. This can be done by bringing into active production from the outside, workers who have not been working before, such as women and older people. We can also work longer hours and increase man-hour efficiency.

But after we have reached the 2.5 million mark, every person taken out of agricultural or industrial production and put into uniform diminishes the productive strength of the civilian economy. Between 2.5 million and 7 million the difficulties increase and beyond 7 million, I am told, we actually lose out militarily by expanding the size of the military establishment. For, at that point it is necessary that no further manpower be removed from the industrial machine since that machine is necessary to support the military establishment. In other words it is a question of balance between the size of the military establishment itself and the size of the productive machine. There is an optimum point beyond which an expansion in the military establishment actually leads to weaker, rather than stronger defense.

Such observations as these serve to stress the importance of attitudes and spirit on the part of the workers of a country. There is no substitute for hard work and consciousness on the part of the workers that he is contributing to the strength of the Nation. Yet, you know as well as I do that there is among the people today a growing case of the "gimme's." For years industry alone was the guilty party, seeking to get more and more out of the public through various monopolistic practices, including tariff grabs. In recent years this attitude has spread so that today it includes certain groups of labor and parts of the agricultural establishment. The idea is to get more money in exchange for doing less work. There is no need for me to embellish this point. Those who have tried recently to get any work done in their homes--any carpentry, plumbing, or plastering--are fully aware of this attitude.

It is a dangerous idea that the world owes one a living. This is not to say that the incapacitated should not be taken care of by their fellow citizens through the instrumentality of the State. But it is to observe that as our economy has grown and becomes more complex we have drifted far away from those earlier ideas and ideals of self-help that characterize a frontier people. What troubles me most about this is that this attitude manifests an almost complete failure to visualize the picture as a whole, to realize that so far as physical production is concerned, the whole is equal to the sum of its parts. We cannot get more in terms of total output if each of us produce less. The way to get more pie, in total, is to produce a larger pie and not to fight among ourselves

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as to which of us gets the largest piece out of a smaller pie. This need for national cohesion is a basic problem, for if it is solved, many of the other problems in the field of production will be solved almost automatically. The United States is engaged in a big-time international struggle. We are not playing for marbles; we are in a struggle for survival. We cannot afford the luxury of that form of extreme individualism which confines itself to the selfish amassing of wealth regardless of one's fellow man.

Not long ago I made a fairly intensive study of the steel industry. Industrially, steel is our number one industrial bulwark. In the words of the motto of the American Iron and Steel Institute, "nothing is made without steel." Modern economies rest upon a bed of steel. At the present time the United States steel industry produces more steel than the steel industry in any other country or at any time in the history of any country. We are now producing at the rate of 104 million tons of ingots per year, which is between three and four times the output of the Soviet Union. Add to our output the production of western Europe and the rest of the free world and our superiority is overwhelming.

This is a comforting thought, but it can be too comforting. Nations don't fight wars today by throwing electric refrigerators, radios, and passenger cars at each other. The capacity to produce steel is a potential only; unless the steel is mobilized for defense it can have little military effect. In World War II Japan caused us a lot of trouble. Yet, at no time did it have a steel capacity in excess of 8 million tons. Furthermore, if western Europe should fall into the lap of the Soviet Union through military action, infiltration, or through internal conflict, the balance of steel production between ourselves and the Soviet Union and its satellites would be just about equal. We would then have only a slight edge over them. The United States cannot afford, on the basis of pure self-interest, to allow western Europe to fall into the hands of the Communists.

Even at our present high rate of steel production, there is still a shortage of steel. There is not enough steel available to take care of our booming economy, including the mushrooming defense establishment. If we want to have guns and butter, too, in this "smolder war" (I am not talking about a shooting war--if that should come, the sacrifices, obviously, would be severe and urgent) we shall have to sacrifice the luxury of allowing the size of our steel capacity to remain unplanned. If we expect to maintain the civilian economy at something like its present level, while, stepping up steel capacity sufficiently to take care of military production, we shall have to increase steel capacity to something in the neighborhood of 130 to 140 million tons. By the same token, however, we must be prepared to take some of this capacity and to place it in stand-by condition as the needs for military production diminish. If we fail to do this, we may find ourselves faced first by too much steel, then by too little steel, with continuous stresses and strains on the civilian economy, depending upon the "hotness" or "coldness" of the international tension at any given time.

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The President of the United States suggested, a year or so ago, that if private industry failed to expand steel capacity, the Government should step in and do it. His suggestion got nowhere; it was called "socialistic" and laughed aside. Yet, if the suggestion be examined more closely it will be seen to be far from ridiculous. For, why should we blame the steel industry for not taking care of this country's steel needs? The steel industry, like other industries, is in business for profit. That is what "private enterprise" means. If we don't have enough steel and if the steel industry does not see its way clear, financially, to expand capacity, we have no one to blame but ourselves. Those who manage the steel industry, like those who manage other industries, are dealing with other people's money. One thing that is exceedingly clear in their minds is the memory of the situation that prevailed throughout most of the depression years of the 1930's. In those days they had too much capacity and, because of their high overhead costs, their costs per ton increased rapidly. The industry is thus understandably "depression minded" and you can hardly blame them for not taking upon their own shoulders the responsibility for national security. If, of course, the Government should embark upon the construction of steel plants, an ever-present problem would be how to prevent those plants from being given up by the Government and thrown back upon the industry, thus bringing about overcapacity.

Equal in importance to steel is petroleum. We had quite a stir a few weeks ago at the Library of Congress when one of my colleagues published a bulletin in which he pointed out the fairly obvious fact that the oil reserves of the United States are an exhausting asset. He pointed out, furthermore, that western Europe is dependent upon Near Eastern oil supplies and, if it should be cut off from these Near Eastern supplies it would have to obtain oil from the United States. This is simple arithmetic and realistic in view of present Anglo-Iranian political relations. The net result, of course, would be rationing of petroleum products and a stepping up of the rate of use of our own oil reserves. Under the circumstances the logical thing would seem to be to stockpile oil. As long as we can obtain oil from the Middle East it would seem to be nothing more than common sense to import all that we can. Then, if Middle Eastern supplies should be cut off and Great Britain and the rest of western Europe were to be thrown upon us we would have the stockpile to fall back upon. Oil can be obtained from coal and oil shales by synthesis but this requires heavy expenditure and much time. Furthermore, in view of the prospect of increasing labor difficulties in coal mining, it does not make too much sense to jeopardize the welfare of the country by making our oil supply dependent upon the satisfactory settlement of disputes between the coal miners and coal operators.

The easiest way to stockpile petroleum would be to import it from the Middle East and to shut down some of our own high-cost wells. The oil is already in the ground and for stockpiling purposes the best thing would be to leave it there. But this would force the closing down of some of the independent wells in Texas, Oklahoma, and California. Incidentally, it

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would favor some of the larger oil companies at the expense of the so-called independents. The national interest, however, is clear. Because my colleague said this in print he was the recipient of near-libelous abuse in the trade paper circulated among the independent oil producers. Everywhere we find this conflict in the areas in which vital decisions must be made. Everywhere we are confronted by the problem of national versus parochial interest. Major decisions are oftener than not made, not on the basis of the national interest but of the interests of various sections of the country.

Among the strategic nonferrous metals that I mentioned a few moments ago are such substances as columbium and titanium. Together with such better-known metals as nickel and copper, this group comprises a number of materials that are of vital importance to both the civilian and the defense economies. If steel is the backbone of the economy, and if petroleum is its lifeblood, we might call the strategic nonferrous metals the vitamins and the hormones of the body economic. Without them we would not have high-grade cutting tools. Alloy metals are scarce throughout the world today. There are substitutes but often the substitutes themselves are scarce. It may be that in the long run the ingenuity of scientists and engineers will discover, or invent, substitutes for these materials. As of now, however, there are no substitutes in sight. The need now is to do the obvious; namely, to husband the supplies that we do have. Naturally, people don't want to give up the chromium trim on their automobiles and refrigerators. But, freedom is more important than refrigerators and automobiles. What I contend is that a master plan, or a set of coordinated master decisions, is necessary if we are to preserve our way of life.

Inflation.

Our third subject--inflation--involves the whole question of money, finance, and taxation. All of us are painfully aware that the purchasing power of the dollar is getting smaller and smaller. The exhilarating effect of wage and salary increases is more than negated by the knowledge and experience that even though we have more dollars they will buy less than did the smaller number of dollars that we used to have. We talk a lot about "stabilization" but we know that stabilization, in the sense of rigid prices, is what we do not want. The function of price is to ration supply to meet demand. We want some fluctuations to occur in order that production may adjust itself to needs. What we want, however, is narrower fluctuation. The trouble is that we don't know what to do to bring this about.

We do know that the ups and downs, known as the "business cycle," are inherent in the capitalistic system. In our saner moments we are conscious of the fact that the value of money has sunk so far and that prices are so high, that it is doubtful whether the movement can continue much longer. Under more normal circumstances the change in direction probably would have occurred long since and we now would be worrying about problems of depression and deflation rather than about problems of inflation. But the men

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in the Kremlin, through their international machinations, have seen to it that inflation in the western countries continues to dizzy and dizzy heights. They know that the higher a body rises the farther must it fall. The more inflation penetrates the western economies, therefore, the greater will be the crash when it comes. It is not without reason that Lenin has been quoted as having said that one of the best allies of communism against capitalism is inflation. When it gives way to depression hundreds of thousands of people become discontented and susceptible to Communist propaganda.

One of the most insidious effects of continued inflation, an effect that we see occurring right before our eyes today, is the steady deterioration of the salaried and middle-income groups generally. As the forces of inflation gather momentum, prices rise as do wages in those fields in which labor is highly organized. Those receiving fixed, or relatively fixed, incomes find that their incomes do not increase anywhere nearly as rapidly as do prices or wages. It is this middle class, however, that is the backbone of free economies, including that of the United States. A strong middle class is vital if democracy is to survive. The equalitarian balancing at the two ends of the scale--the very rich getting somewhat poorer and the very poor getting somewhat richer--would not, in and of itself be dangerous. What is dangerous is that in the process the middle groups become more and more submerged. This is a very real danger; if the middle classes disappear, so does the free economy. The preservation of the middle class is vital to our way of life.

Our country has been going into debt for a long time. It is so much easier to borrow than to tax that the political authorities have been unwilling to face the issue clearly. One of the things that economists and experts in public finance agree upon is that the cost of a war or a defense program, or other emergency, cannot be postponed to succeeding generations. When a war is fought, the materials--the guns, ammunition, and other supplies--are used up then and there. When a country borrows, rather than taxes, in order to pay for such activity, what it does is to shift the burden from one group of people to another. Thus, by selling bonds or otherwise extending credit, the Government incurs debt which is an obligation upon the taxpayers. In future years the taxpayers are pressed to pay off the bondholders. In a national sense, however, the real cost cannot be postponed. Thus, in terms of real wealth, the cost of the defense program and the cost of strengthening the economies of the free western world have to be borne out of present production. All the rest is a matter of bookkeeping.

The problem of financing has been complicated by the recent fight between the Board of Governors of the Federal Reserve System and the Secretary of the Treasury. So long as the Federal Reserve System is required to play "second fiddle" to the Treasury and to support the bond market there can be little effective control of credit and prices.

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Preserving Freedom.

Our fourth subject is the most important of all. In fact, I have been referring to it throughout the course of this discussion. This is the problem of maintaining a free economy, notwithstanding all the controls that are necessary if we are to have a national plan. Thinking on this subject is often exceedingly fuzzy. There are those who confuse a national plan with socialism, or who confuse socialism and communism. Nothing could be farther from the truth than to identify the Labor Government of Great Britain with the Communist Government of the Soviet Union. Britain's economy is socialistic but it is socialistic by choice. The people still control their government, whereas in the Soviet Union the government is a pure dictatorship.

I doubt if the United States will move toward communism. I also doubt whether we shall go very far in the direction of pure socialism. But I do think that we will go, and I think that we are presently going, far in the direction of social control of individual action. The national interest must be supreme and the only way that it can be supreme is through the power of the people as a whole, curbing the excesses of extreme individualism and selfishness. The strength of America will arise out of its ability to exercise self-restraint. Name calling, the persecution of liberals in the name of democratic freedom, and enforced conformity in thinking are the real enemies of our freedom. The most important freedom of all is freedom of thought. Without that what good is life itself? Unless everything else that we have been talking about this morning is geared into this over-all objective, we are wasting our time.

I have now touched upon four principal problem areas; namely, the international economic position of the United States, national defense, inflation, and the preservation of our political freedom. There are many other areas that we could talk about if we had the time to do so. I think, however, that the areas that we have chosen for discussion are the really important ones. A master plan, a plan worked out through our regular democratic procedures, will enable us not only to survive the smoldering war but will enable us to win out. We must still preserve the faith that there is no force like a free people aroused. Our job is to keep ourselves aroused when the cause that normally would arouse us keeps itself in hiding and seeks to attain its objectives by insidious, unseen means. Any alternative to winning the cold war is unthinkable.

COLONEL BARNES: Who has the first question?

QUESTION: Doctor, you mentioned that Stalin or Lenin felt that one of their most important allies was inflation.

It would seem to me that our greatest danger from a Communist uprising or democratic defeat in this country would be depression rather than inflation. It seems to me the working class here today is benefiting

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far more and would be less inclined to want communism than they would in a depression period.

DR. PIQUET: I think that is what I had in mind. In any event that is what I should have said. Inflation is exhilarating--you don't realize what is happening at the time. But what they would be shooting for would be the collapse that follows inflation. I agree with that, thoroughly.

QUESTION: Dr. Piquet, I am curious to get the economists' slant on what may be facing us, say three years from now, if we have satisfied the demand for military goods and our increased productivity is up 20 percent over and above the normal requirements of the country, to the point that we have a period of deflation or depression or whatever it is facing us--what steps should be taken? This is with the proviso that we don't have a shooting war.

DR. PIQUET: I feel that if we do succeed in expanding our economy to the 130-percent level, there will be a danger of dumping all that capacity onto the civilian economy too suddenly. That's where the standby idea comes in, for then we could keep the military capacity in reserve. I am convinced that a free people, if they really want something, can usually get it. Who would have thought prior to 7 December 1941 that we could have done what we did do in the succeeding four years? We should not be afraid of too much production. A country that can produce as much as we are producing now has no real reason for fearing a permanent national collapse, in contrast to what western Europe faced in 1946-1947. Our problem is an abundance of riches. Sometimes too much wealth causes trouble; but this is not nearly so serious a problem as not having enough.

QUESTION: It seems to me in your discussion you highlighted the basic conflict between the parochial interest as against national interest.

On the one hand you state conditions which are perfectly proper. I think you use the petroleum industry, the way petroleum producers take every step they can to avoid a national action that would jeopardize their position. That was perfectly proper. In the latter part of your lecture you said we should all use more self-restraint, be less selfish. In our economy the individual or corporate group goes out to get all he can get. If they use political means to accomplish those ends, it ties in with your suggestion that we need an over-all plan; but how are you going to make a main plan when it means you are going to tramp on the toes of a lot of these individual interests or sectional interests or corporate interests? I wish you would elaborate on that.

DR. PIQUET: Let us distinguish between a completely laissez-faire system and a planned economy. The theory of laissez-faire was popular a century ago. It meant that the Government would do nothing more than protect law and order. The theory is that the less government the better.

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That is one extreme and, in philosophy, it is close to economic anarchy. Toward the other extreme is the planned economy approach such as prevails in Great Britain an old country. In between there is the concept of an ordered society in which freedom and restraint are the dominant characteristics. What kind of a football game would you have between Army and Navy if there were no rules? It might be an interesting spectacle, but I doubt if it would be a ball game. And what kind of "freedom" would there be on Connecticut Avenue if there were no traffic lights nor traffic cops?

An ordered individualism is what I am talking about. As the economy becomes more congested, if I do what I choose and you do what you choose, there is not room for us both without coming into conflict. The essential characteristic of every peaceful democratic society is that the people themselves agree voluntarily upon the rules by majority vote, and the minority must go along. We have respect for their rights, too, which are also agreed-to rights. So we have what I was talking about today--the middle ground that a free people takes when a great danger faces them. People who are intelligent enough to recognize that danger should set up whatever rules are necessary to act as a team to preserve individualism within a framework of safety. That framework of safety cannot be the same as the former characteristic of laissez-faire. That is dead and it ought to stay dead. There is no room for it in a congested economy. There is need for a free people to agree voluntarily, by majority vote, upon a national economic plan.

QUESTION: You have sketched out Utopia for us but told us we could not agree on taxation plans. Would you care to venture a guess as to how long this country would take to get a plan which would control our economy the way it ought to be controlled?

DR. PIQUET: If you conceive of this plan I am talking about in a literal sense, the answer is never. But if you mean by a plan that we are going to learn how better to coordinate the various decisions we make and recognize when we make a decision that it has an impact on the people and they have to grow into it by degrees, that plan will work. The petroleum industry I was talking about is an instance. So long as we think in primitive terms by which the individual has a right to do as he pleases without any idea of national responsibility, we are not going to win this struggle. So far as a blueprint of a planned economy is concerned, may Heaven forbid that we should ever do that! Maybe it is a bad choice of words, "master plan." What I mean is a set of decisions geared together into a going concern known as the United States.

QUESTION: Early in your talk you mentioned that the United States needed, in so far as its position in the world was concerned, an established objective. Do you have any suggestions as to how, if we establish these objectives, they can be maintained and if they can be maintained through a change of political parties?

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DR. PIQUET: I think we have established objectives. I don't mean to give the impression that we haven't a set of objectives; I think we have. The first question is whether the objectives are themselves down to earth enough to be tangible; and, second, whether we ourselves are prepared to implement those objectives. For instance, in the field of tariffs and other import controls, there is room for greater national intelligence. We are at present importing into the United States only 6,000 pounds of butter--that's all we imported last year. The tariff on butter is only about 14 percent. But we don't allow butter to come into the country. Under the War Powers Act we gave the Secretary of Agriculture the power to issue licenses for the importation of butter. I don't think one citizen out of a thousand knows it; but we could allow butter to come in from New Zealand or Denmark--if we removed those restrictions we could allow up to 400 million pounds of butter. Why don't we do it? Because the dairy lobby won't let us.

QUESTION: Doctor, economists, I believe, are generally agreed that our tax program in the last war was both a handicap and unrealistic, when considered in the light of the actual revenue and requirements. I have two questions: First, in your opinion, are we about to repeat the same mistake we made during the last war, not because we don't have a plan, but because Congress is reluctant to adopt a plan such as the one the President has recommended to Congress; and, second, I wonder if you would care to comment as to the reasons, in your opinion, that the Congress is so reluctant to adopt a realistic tax program. I realize the second question is fairly tough.

DR. PIQUET: I think I will answer the first question this way: We are not paying as we go. That's the brief answer. The answer to the second question is not too difficult to adduce. Congress represents the people, in their weaknesses as well as in their strength, and the people don't like to be taxed. They still seem to believe that magicians can pull rabbits out of hats and that we can spend without taxing. It is just that simple. Let us not blame Congress; let us blame ourselves.

QUESTION: Dr. Piquet, are we actually promoting a multilateral trading world? It appears to me you said that was the idea, but it looks to me as if we are doing everything to prevent it rather than to promote it.

DR. PIQUET: That is exactly what we are doing. I was hoping that was what you got out of my talk. We have many tariff duties in this country, notwithstanding the success of the Reciprocal Trade Agreements Program. I don't think that the people have really supported what the Administration has been talking about. We are paying lip service to the idea of multilateral trade without realizing its implications.

COLONEL BARNES: Dr. Piquet, on behalf of the college, I thank you for a very fine discussion.

(30 Apr 1952--250)s/sgb

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